



2017/18 DRAFT BUDGET OF UMUZIWABANTU MUNICIPALITY

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2. MAYOR'S REPORT

SPEECH DELIVERED BY THE HONOURABLE MAYOR, CLLR D NCIKI ON TABLING THE DRAFT BUDGET FOR THE YEAR 2017/2018

Honourable Speaker;

Deputy Mayor;

Members of the Executive Committee;

Councillors;

Municipal Manager; and

Senior Managers

Honourable Speaker; It is with great pleasure that I motivate to and enlighten council on the proposed draft budget for 2017/2018 financial year .It is that time of the year once again where we look in retrospect to the service journey that we have travelled together as we ponder on the successes and challenges that we have confronted in outgoing fiscal year. We are equally able to use the benefit of hindsight to plan and budget for better interventions in the budget year.

Today I am presenting to this council a budget for the year 2017/2018 of the Municipality as prescribed by the MFMA. Speaker this act requires that, in terms of section 21(1)(b) of the MFMA the council must at least ten months before the start of each year approve the budget . In order for a municipality to comply with the subsection (1)(b),the Mayor of the municipality must table the draft budget at a council meeting at least 31 March each year. It is for this background, I have to table this draft budget today.

An annual budget of the municipality must set out realistically anticipated revenue for the budget year and appropriate expenditure for the budget year under the different votes of the Municipality. Alignment of Integrated Development Plan with the budget is one of the critical undertakings that the current government has put on top of the agenda. The reasoning behind is to ensure that scarce resources are optimally allocated. Speaker it is for this background that I am presenting the budget report.

The Minister of Finance has highlighted the following in strengthening financial management in the municipalities; National Treasury and Provincial treasury have agreed to focus their efforts on four “game changers”, which are the following:

- The new Municipal Standard Chart of Accounts, which will be implemented from 1st July 2017, contributing to greater transparency and consistency of municipal finances.
- Targeted supply chain management interventions to achieve cost savings and combat fraud.
- Enhanced revenue management ,including appropriate tariff-setting, regular billing and effective collection systems
- Improved asset management, including adherence to 8% of the value of assets being spent on the maintenance

The Municipality is therefore required to work towards meeting or achieving the above game changers stated by the Minister of Finance.

Low economic growth that is faced by the Country provides major challenges to us as a Local Government. Our financial situation is difficult, where we need to do more with less, but we have still produced a credible budget.

We are compelled to prioritise our spending better, implement our plans more effectively and make greater impact.

The Medium Term Expenditure Framework proposes a total budget of **R 218 million** for the 2017/2018 financial year .It appropriates a total operating expenditure of **R 161 million** and capital expenditure of **R 57 million**.

2.1 OPERATING REVENUE FRAMEWORK

Table 1: Overview of major revenue by items

INCOME	ADJ BUDGET 2016/2017	DRAFT BUDGET	
		2017/2018	DIFFERENCE
EQUITABLE SHARE	76,377,000.00	81,848,000.00	-5,471,000.00
FIN MAN GRANT	1,825,000.00	1,900,000.00	-75,000.00
LIBRARY GRANT	761,000.00	800,000.00	-39,000.00
EPWP	1,129,000.00	1,129,000.00	-
MIG	22,275,000.00	23,814,000.00	-1,539,000.00
DISASTER GRANT	317,162.50	317,162.50	-
RATES	14,500,000.00	15,072,750.00	-572,750.00
ELECTRICITY	33,907,301.00	36,162,976.37	-2,255,675.37
REFUSE	2,125,785.00	2,255,457.79	-129,672.79
TRAFFIC LICENSING	2,512,425.35	2,665,683.30	-153,257.95
INTEREST ON INVESTMENT	6,970,000.00	7,395,170.00	-425,170.00

Honourable Speaker; we can confirm without any equivocation that no effort was spared in making sure that compilation of this budget was executed in a manner which complies with the relevant provisions of the MFMA and budget related regulations. On the tariffs increase Honourable Speaker let me indicate that the tariff for the 2017/2018 have been determined at 5% on property rates which is lower than anticipated CPI, meaning that the municipality is actually caring for its community during this tough economic times and refuse removal at 6.1%, 8% on electricity and 6.1% on all other services.

2.2 OPERATING EXPENDITURE FRAMEWORK

Table 2: Overview of expenditure per category

EXPENDITURE	ADJ BUDGET	DRAFT BUDGET	
	2016/2017	2017/2018	VARIANCE
SALARIES AND WAGES	57,480,915.00	68,865,354.00	-11,384,439.00
BULK PURCHASES	30,246,740.00	32,666,479.00	-2,419,739.00
REPAIRS AND MAINTENANCE	6,118,322.00	7,125,143.00	-1,006,821.00
DEPRECIATION	12,675,942.00	13,449,174.00	-773,232.00
GENERAL EXPENSES	37,151,205.00	39,058,958.00	-1,907,753.00
TOTAL	143,673,124.00	161,165,108.00	-17,491,984.00

Employee related costs have increased by 7%, the municipality has also seen a need to prioritise some new position in this budget year 2017/2018. Remuneration for councillors have been taken into account the Upper limits of salaries and allowances for councillors. Bulk purchased has increased by 8% as per NERSA guidance, stipulated in the MFMA circular 85. Repairs and maintenance has also increased even though we were unable to adhere to the 8% that is stipulated by Treasury, 3% of the total budget has been allocated to the asset maintenance due to the limited resources that we have. General expenses and depreciation has also increased as per MFMA treasury circular no.85 CPI.

Table 3: Overview of expenditure for special programmes

PROGRAMMES	ADJ BUDGET	DRAFT BUDGET	
	2016/2017	2017/2018	DIFFERENCE
PEOPLE WITH DISABILITIES	145,600.00	154,481.60	-8,881.60
GENDER	104,000.00	110,344.00	-6,344.00
ARTS AND CULTURE	187,200.00	198,619.20	-11,419.20
HIV/AIDS	166,400.00	176,550.40	-10,150.40
SENIOR CITIZENS	197,600.00	209,653.60	-12,053.60
YOUTH PROGRAMMES	362,447.29	384,556.57	-22,109.28
SPORTS DEVELOPMENT	225,281.60	239,023.78	-13,742.18

Overall total programmes have increased by 6.1% when compared to the adjustment budget.

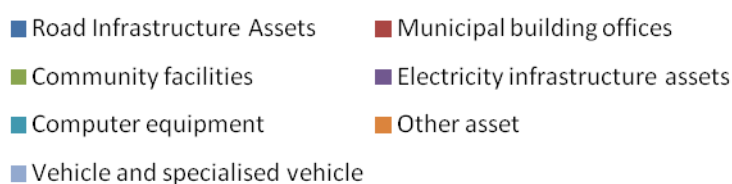
Honourable Speaker our capital expenditure patterns continue to reflect a consistent agenda to address backlogs in the provision of basic services.

2.3 CAPITAL EXPENDITURE FRAMEWORK

Table 4: Overview of the capital budget per category

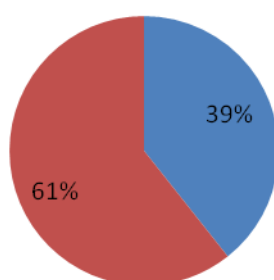
DESCRIPTION	DRAFT BUDGET
Road Infrastructure Assets	12 103 848.09
Municipal building offices	25 000 000.00
Community facilities	12 674 535.10
Electricity infrastructure assets	2 731 616.81
Computer equipment	850 000.00
Other asset	1 610 000.00
Vehicle and specialised vehicle	2 700 000.00
Total	57 670 000.00

ASSET PER CATEGORY



Capital Funding Sources

■ MIG ■ Internal Fund



2.4 Detailed capital expenditure

Accessible road infrastructure is a critical component of economic growth and social development in our communities. It provides the required impetus for the quicker movement of goods and services to the people. The Municipality has allocated R12.1 million towards roads infrastructure assets; R 2.7 million towards Electricity infrastructure, R 25 million towards Municipal Office Building and R12.6 million has been allocated towards Community Facilities which includes Landfill site, Informal trading centre and Sport field.

2.5 Funding sources for capital expenditure and budget remarks

Capital expenditure is funded by Municipal Infrastructure grant of R22 million and own revenue of R 34 million which is coming from our cash backed reserves.

We are convinced that through our collective wisdom and unity of purpose; we will be able to achieve the impressive ambitions that are demonstrated in this budget.

Each of us must take individual and collective responsibility in making sure that the aspirations that we seek to fulfil through this budget are realised.

Honourable Speaker this budget and IDP is an expression of the aspirations of our people. On its own it cannot achieve the desired outcomes.

It requires the discipline and commitment of men and women who will be resolute in making sure that institution does not punch below its weight; and that all institutional efforts are kilt with the set norms and standards as well as the aspirations of our people.

Allow me Honourable Speaker to take this opportunity and thank the Council of Umuziwabantu Municipality for its on-going support and guidance to me and my colleagues in the Executive; as we endeavour to fulfil every mandate delegated to us by council.

Members of the portfolio committees and all other committees of council; we thank you for your commitment and courageous work ethic.

We further recognise the indispensable role played by our administrative personnel and stakeholders. We encourage you to work even harder in the upcoming financial year in order to produce the kind of audit outcomes that we can all be proud of.

Recommendation:

Honourable Speaker I table this report to Council for noting and further recommending that:

- Budget and related policies for 2017/2018 financial year be approved as per MFMA and budget regulation.

I THANK YOU

3. EXECUTIVE SUMMARY

Introduction

The budget is prepared to meet the Integrated Development Plan(IDP)priorities as well as the strategic objectives of Umuziwabantu Municipality. The Departments have been consulted to enhance the production of a credible balanced budget. The limited available funds require that priorities and strategic objectives should be carefully considered in the preparation and production of realistic credible balanced budget that is capable of being approved and implemented as tabled.

This 2017 to 2020 Tabled Medium Term Revenue and Expenditure Framework(MTREF) Budget Report deals with the operating budget and tariff proposals as well as the capital budget and funding sources proposal to ensure that Umuziwabantu Municipality renders services to their local community in a financially sustainable manner.

Past performance

Umuziwabantu Municipality has now attained clean audit reports for two consecutive years. The Municipality has done exceptional well. Whilst the clean audit reports is a positive achievement one has to be honest and say that it tells the reader little about whether we have improved service delivery or even delivered on our constitutional mandate. It's actually reflects the good image of Umuziwabantu leadership in rendering its services, transparency and equally to benefits its needy community at large.

Financial Sustainability

Financial sustainability over the long-term has to do with the maintenance of high priority expenditure programs, both operating and capital, to ensure program sustainability and desired quality of services to be rendered. There must also be rates and service charges stability and predictability in the overall rate burden by ensuring reasonable rates and service charges to fund programs.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The following table is a consolidated overview of the proposed 2017/2018 budget and medium term revenue and expenditure framework:

Table 1 Consolidated Overview of the 2017/2018

R Thousand	Adjustment s Budget 2016/2017	Budget year 2017/2018	Budget year 2018/2019	Budget year 2019/2020
Total Operating Revenue	141 769	153 156	159 340	159 898
Total Operating Expenditure	143 673	161 165	170 674	180 804
Surplus/Deficit for the year	-1 904	-8 009	-11 334	-20 906
Total Capital Expenditure	35 347	57 670	60 554	63 581

Total operating revenue has increased by 8% for the year 2017/2018 financial year when compared to the adjustments budget. Contributing factor for this increase is due to the grants allocations that has been Gazetted. For the two outer years, operational revenue has increased by 5.9 % and 5.8 % when compared to 2017/2018 financial year

Total operating expenditure for the 2017/2018 financial year has been appropriated at R161 million and translates into deficit of R 8 million. When compared to the 2016/2017 Adjustments Budget, overall operational expenditure has increased by 12% when compared to the Adjustments budget. Contributing factor for this increase is due to the new post that has been budgeted for. For the outer years it has increased by 5.9% and 5.8% when compared to 2017/2018 financial year

The capital budget of R57 million for 2017/2018 is 63% higher when compared to the adjustment budget. This is actually to assist in rendering service delivery to the needy community to fight against poverty that is affecting our community at large. Capital projects are funded by Municipal Infrastructure grant and internally generated funds, using our cash backed reserves.

Operating Revenue Framework

For Umuziwabantu Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding, hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy
- Efficient revenue management, which aims to ensure a 100 per cent annual collection rate for property rates and other key service charges,
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) MPRA,
- Increase ability to extend new services and recover costs
- The municipality's Indigent Policy and rendering of free basic services and
- Tariff policies of the Municipality

The following table is a summary of the 2017/2018 MTREF(classified by main revenue source):

Income by Source Table

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand	1										
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	15 073	15 962	16 888
Service charges - electricity revenue	2	-	-	-	-	-	-	-	36 163	38 297	40 518
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	-	-	-	-	-	-	-	2 268	2 402	2 541
Service charges - other											
Rental of facilities and equipment									164	173	183
Interest earned - external investments									7 395	7 831	8 286
Interest earned - outstanding debtors											
Dividends received											
Fines, penalties and forfeits									30	31	33
Licences and permits									531	563	595
Agency services									1 341	1 420	1 503
Transfers and subsidies									87 476	89 781	86 297
Other revenue	2	-	-	-	-	-	-	-	2 715	2 880	3 054
Gains on disposal of PPE											
Total Revenue (excluding capital transfers and contributions)		-	-	-	-	-	-	-	153 156	159 340	159 898

In line with the formats prescribed by Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus or deficit.

Transfer recognised-operational remain the largest revenue source, electricity service charges is the second, property rates is the third and fourth largest source is interest on investment and the fifth one is revenue from refuse removal. Municipality have been urged to review the tariffs of the items on the annual basis to ensure that they are cost reflective and market related. Umuziwabantu municipality has reviewed their tariffs charges as per the above statement.

Operating transfers and grants receipts

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipality to keep increases in rates, tariffs and other charges as low as possible. Municipality must justify in their budget documentation all increases in excess of CPI upper boundary of the South African Reserve Bank's inflation rate. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payments.

Property Rates

Property rates cover the costs of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process

National Treasury's MFMA Circular No.51, inter alia with the implementation of the Municipal Property Rates Act, with regulations issued by the Department of Co-operative Governance. These came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0.25:1

The following stipulations in the Property Rates are highlighted:

- The first R 15000 of the market value of property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- 55% rebate will be granted to agriculture
- 100% rebate will be granted to registered indigents in terms of the Indigent Policy
- The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income.
- The applicant must submit proof of his/her age and identity and in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension
- The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place
- The property must be categorized as residential

Overall impact of tariff increases on households

Note that in all instances the overall impact of the tariff increases on household's bills has been kept to between 5 per cent as well as the increase in indigent households

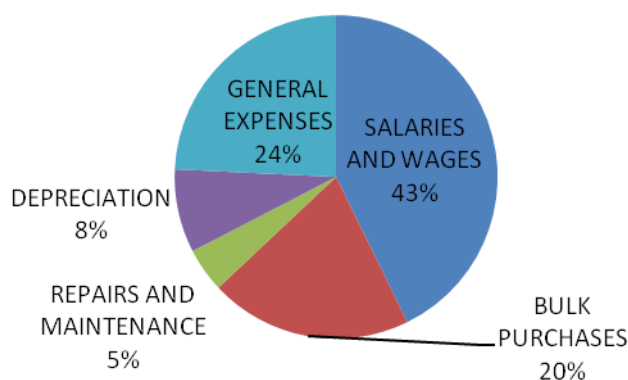
Operating Expenditure Framework

The expenditure framework for the 2017/2018 budget is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit
- Funding of the over the medium-term as informed by Section 18 and 19 of the MFMA,
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Expenditure By Type											
Employee related costs	2	28 667	33 229	39 757	49 407	49 407	49 407	49 407	60 220	64 495	69 074
Remuneration of councillors		5 834	6 135	6 174	8 074	8 074	8 074	8 074	8 646	9 078	9 532
Debt impairment	3	1 185	249	174	629	629	629	629	186	195	205
Depreciation & asset impairment	2	7 142	8 064	11 430	10 377	12 675	12 675	12 675	13 449	14 243	15 069
Finance charges		193	864	38	685	685	685	685	858	900	946
Bulk purchases	2	18 332	20 553	22 924	30 629	30 246	30 246	30 246	32 666	35 280	38 102
Other materials	8	1 149		710	1 328	1 333	1 333	1 333	1 817	1 908	2 004
Contracted services		630	806	2 084	3 019	3 239	3 239	3 239	3 369	3 567	3 774
Transfers and subsidies		240	215	327	3 083	2 503	2 503	2 503	2 655	2 812	3 207
Other expenditure	4, 5	30 573	41 016	33 610	30 583	34 882	34 882	34 882	37 299	39 500	41 791
Loss on disposal of PPE		349		-							
Total Expenditure		94 294	111 131	117 229	137 814	143 673	143 673	143 673	161 165	171 979	183 703

DRAFT BUDGET EXPENDITURE PER CATEGORY 2017/2018



Employee Related Costs

The budgeted allocation for employee related cost for the 2017/2018 financial year totals R68 million. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7.1 percent for the 2017/2018 financial year. However salaries for employees has increased by 22% if you compare it with an adjustment budget. The contributing factor to this percentage increase is new position that has been budgeted for .An annual increase of 5.9 per cent has been included in the two outer years of the MTREF. Remuneration for Councillors has increased by 7% when compared to the adjustment budget. The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998(Act 20 of 1998).

The provision of debt impairment was determined based on an annual collection rate. For the 2017/2018 financial year this amount equates to R 185 thousand and escalates to R 205 thousand by 2019/2020. While this expenditure is considered to be non-cash item, it informed the cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy and audited Annual Financial Statements for 2015/2016 financial

year. Depreciation is widely considered a proxy for the rate asset consumption. Budget appropriations in this regard for the depreciation total to R13 million for the 2017/2018 financial.

REPAIRS AND MAINTENANCE

The municipality is operating at a tight budget scale therefore it's couldn't meet the required 8% as per Treasury guidance.

In line with repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure assets even though it's sitting at a low percentage of 4.8% due to the limited resources that we have.

A finance charges has increased by 6.1% when compared to the adjustment budget. It's consists of lease payable to the photocopying machine as well as bank charges for the Municipality.

Free Basic Social Services Package

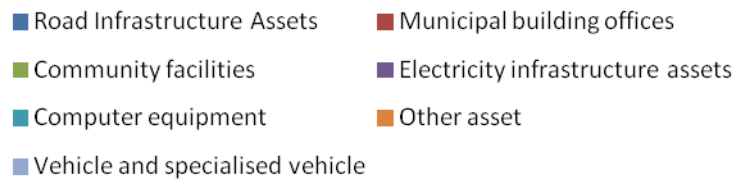
The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy.

CAPITAL SUMMARY

CAPITAL EXPENDITURE PER CATEGORY/BY ASSET CLASS

DESCRIPTION	DRAFT BUDGET
Road Infrastructure Assets	12 103 848.09
Municipal building offices	25 000 000.00
Community facilities	12 674 535.10
Electricity infrastructure assets	2 731 616.81
Computer equipment	850 000.00
Other asset	1 610 000.00
Vehicle and specialised vehicle	2 700 000.00
Total	57 670 000.00

ASSET PER CATEGORY



Capital Funding Sources



Capital expenditure is funded by MIG grant of R22 million and internal generated funds of R34 million which is funded internally from our cash backed reserves.

Budget Assumptions

Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.
- Expediting spending on service delivery

In preparing the budget, the following priorities were taken into account:

- Deliver more and better services in a caring and efficient manner
- Hold political office bearers and public servants accountable

The challenge for the municipality is to do more within its existing little resource envelope

Over the next few years, the municipality must deliver more services- and deliver them more efficient-within a tight resources envelope. Achieving this objective requires a new way of working:

- The budget has been reprioritized so that money is moved from low-priority programmes to high priority programmes.

Investments

At present the Council does not have long term investments to fund the operating or capital expenditure. The investment portfolio for the Council is short term investments for conditional grants received from National Treasury and other organization of the state.

2.1 Explanatory notes to MBRR Table A1-Budget Summary for 2017/2018 Financial year.

- Table A1 is a budget summary and provides a concise overview of Umuziwabantu Local Municipality's budget from all the major financial perspectives (operating, capital expenditure, financial position, cash flow and MFMA funding compliance).
- The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- Financial management reforms emphasises the importance of the municipal budget being funded. The Budget Summary provides the key information in this regard;
 - Transfer recognised is reflected on the Financial Performance Budget
 - Internally generated funds are financed from a combination of the operating surplus and accumulated cash-backed surplus from previous years. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
- Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The municipality is committed to provide free basic services to the needy community. In addition, the municipality continues to make progress in addressing service delivery backlogs.

2.2 Explanatory notes to MBRR Table A2-Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into its functional areas. Municipal revenue, operating expenditure are

then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports

2.3 Explanatory notes to MBRR Table A3-Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure. This means it is possible to present the operating surplus or deficit of a vote. The table shows the analysis of the surplus or deficit

2.4 Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

Total revenue is R153 million in 2017/2018 this excludes capital transfers as well as internally generated fund.

2. Revenue to be generated from property rates is R 15 million in 2017/2018 financial year and increases to R 16 million 2019/2020 which represents 6 per cent of the operating revenue base of the municipality and therefore remains a significant funding source for the municipality. Property rates have increased less than 1% when compared to the CPI rate stipulated in circular 85 which is a guide for this 2017/2018 financial budget.

Transfers recognised-operating includes the local government equitable share and other grants from national and provincial government. It is noted that the equitable shares remains a significant and high funding source for the municipality.

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

- Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote, capital expenditure by standard classification, and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
- The capital programme is funded by grants and internally generated funds

Explanatory notes to Table A6-Budgeted Financial Position

- Table A6 is consistent with international standards of good financial management practice, and improves understanding for councillors and management of the impact of the budget on the statement of financial position (balance sheet)
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version.
- Any movement on the budgeted financial performance or the capital budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end.
- Table SA3 provides a detailed analysis of the major components of a number of items, including

- Call investments deposits
- Consumer debtors
- Property, plant and equipment
- Trade and other payables
- Provisions non current
- Change in net assets,
- Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets on the municipality belong to the community.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

- The budgeted cash flow statement is the first measurement in determining if the budget is funded.
- It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
- Cash and cash equivalent totals R109 million as at the end of the 2017/2018 and escalates to R 80 million by 2019/2020.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

- The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
- In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
- The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be funded
- As part of the budgeting and planning guidelines that informed the compilation of the 2017/2018 MTREF the end objective of the medium framework was to ensure the budget is funded aligned to section 18 of the MFMA.
- Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2017/2018 MTREF is funded

Explanatory notes to Table A9 - Asset Management

- Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.

- National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of Property Plants and Equipments. The Municipality is working towards meeting both of these recommendations but the budget for Umuziwabantu is adequate to secure the ongoing health of the municipality's infrastructure.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

- Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services. The Municipality continues to make good progress with the eradication of backlogs:
- The number of household registered for indigent in 2017/2018 is expected to increase therefore entitled to receiving Free Basic Services, this is covered by municipality's equitable share

Part 2 – Supporting Documentation

1. Budget Assumptions

Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2017/2018 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Umuziwabantu residents and businesses;
- The impact of municipal cost drivers;

2. Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of EXCO Members and Members of the Finance committee, the Municipal Manager, Senior Managers and Budget Manager of the municipality. Its chaired by the Madam Mayor.

The primary aim of the Budget Steering Committee is to ensure that;

- the process followed to compile the budget complies with legislation and good budget practices;

- there is proper alignment between the policy and service delivery priorities set out in the Umuziwabantu's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- the various spending priorities of the different municipal departments are properly evaluated and prioritized in the allocation of resources.

3. Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2016) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required IDP and budget time schedule on 25 August 2017. Key dates applicable to the process were:

- **August 2016** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritization criteria for the compilation of the 2016/2017 MTREF;
- **November 2016** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **3 to 7 January 2017** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2018** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **28 January 2018** - Council considers the 2017/18 Mid-year Review and Adjustments Budget;
- **February 2018** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The final 2017/18 MTREF is revised accordingly;
- **31 March 2018**- final Draft Annual Budget and MTREF 2017/2020 and draft IDP 2017/2018 tabled
- **April 2018**- Public is consulted on the final Annual Budget and MTREF 2017/2020
- **6 May 2017** - Closing date for written comments;
- **6 to 21 May 2017** – finalization of the 2017/18 IDP and 2016/17 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **31 May 2017**- Annual Budget and MTREF 2017/2020 is tabled for consideration for adoption

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council

4. IDP and Service Delivery and Budget Implementation Plan

Umuziwabantu's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

- Registration of community needs; Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

5. Financial Modelling and Key Planning Drivers

As part of the compilation of the 2017/18 MTREF, extensive financial modeling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2017/18 MTREF:

- Local growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2015/16 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 70, 72, 74,75,78,78 and 85 and prior circulars has been taken into consideration in the planning and prioritisation process.

6. Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

7. Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Umuziwabantu has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

8. Planning, budgeting and reporting cycle

The performance of the Umuziwabantu relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. Umuziwabantu municipality therefore has adopted one integrated performance management system which encompasses.

8.1 Performance indicators and benchmarks

a) Creditors Management

Umuziwabantu has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favorable impact on suppliers' perceptions of risk of doing business with Umuziwabantu, which is expected to benefit the local community in the form of more competitive pricing of tenders, as suppliers compete for the Umuziwabantu business

b) Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of Umuziwabantu. Only registered indigents qualify for the free basic services.

9. Overview of budget related-policies

The Umuziwabantu Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2017/2018 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Umuziwabantu residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration. Employee related costs MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions were taken into account.

10. Overview of budget funding

Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term: Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. Umuziwabantu derives most of its operational revenue from property rates, operating and capital grants from organs of the state and other minor charges (such as building plan fees and traffic fines etc.)

DRAFT BUDGET FUNDING	
DETAILS	AMOUNT
Rates	15 072 750.00
Refuse removal fees	2 255 457.79
Interest on investment	7 395 170.00
Electricity	36 162 976.37
Testing centre income	2 665 683.30
New connection	43 234.90
Other revenue	4 701 615.93
Equitable share	79 670 000.00
Municipal Infrastructure grant	23 685 000.00
Finance Management grant	1 900 000.00
Provincialisation of libraries	583 000.00
Expanded public works	1 006 000.00
Electrification grant	4 000 000.00
Disaster grant from Ugu	317 162.00

Disaster grant is not gazetted but we do have written agreement with Ugu

2.2 The future fiscal sustainability of the Council is not very positive. The following are contributing factors for this situation:

- The continued inability of consumers to settle outstanding accounts
- Government departments not paying their rates accounts
- Poor of revenue base on high rate of Indigent people around Umuziwabantu area
- The continued dependency on grant funding from the national government

The revenue strategy is a function of key components such as:

- Growth in the local and economic development;
- Revenue management and enhancement;
- To achieve at least 100 per cent annual collection rate for consumer revenue

11. Expenditure on allocations and grant programmes

It is estimated that a spending rate of at least 100 per cent is achieved on operating expenditure and 100 per cent on the capital programme for the 2017/18 MTREF of which performance has been factored into the cash flow budget.

The following table is a breakdown of allocations and grant programmes

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand										
EXPENDITURE:	1									
Operating expenditure of Transfers and Grants										
National Government:		-	-	-	-	-	-	79 825	84 168	85 653
Local Government Equitable Share								76 919	82 268	83 753
Finance Management								1 900	1 900	1 900
EPWP Incentive								1 006	-	
Integrated National Electrification Programme										
Municipal Systems Improvement										
MIG					-					
Provincial Government:		-	-	-	-	-	-	583	613	644
								583	613	644
								-		
MIG										
District Municipality:		-	-	-	-	-	-	317	-	-
Disaster management grant			-					317		
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total operating expenditure of Transfers and Grants		-	-	-	-	-	-	80 725	84 781	86 297
Capital expenditure of Transfers and Grants										
National Government:		-	-	-	-	-	-	25 252	24 843	26 065
Municipal Infrastructure Grant (MIG)								22 501	24 843	26 065
Equitable share								2 751		
Provincial Government:		-	-	-	-	-	-	-	-	-
Small Town										
District Municipality:		-	-	-	-	-	-	-	-	-
Disaster management grant										
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total capital expenditure of Transfers and Grants		-	-	-	-	-	-	25 252	24 843	26 065
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS		-	-	-	-	-	-	105 977	109 624	112 362

12.Capital Expenditure Details

The following table is a breakdown of capital expenditure for the year 2017/2018; these capital assets will assist Umuziwabantu Municipality in rendering its services to the community.

CAPITA EXPENDITURE PER CATEGORY

DESCRIPTION	DRAFT BUDGET
Road Infrastructure Assets	12 103 848.09
Municipal building offices	25 000 000.00
Community facilities	12 674 535.10
Electricity infrastructure assets	2 731 616.81
Computer equipment	850 000.00
Other asset	1 610 000.00
Vehicle and specialised vehicle	2 700 000.00
Total	57 670 000.00

13.Councillors Allowances and Employee benefits

The following table is a breakdown of Councilors Allowances and Employee benefits for the year 2017/2018.

Summary of Employee and Councillor remuneration	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand		A	B	C	D	E	F	G	H	I
Councillors (Political Office Bearers plus Other)	1									
Basic Salaries and Wages								6 755	7 093	7 448
Pension and UIF Contributions										
Medical Aid Contributions										
Motor Vehicle Allowance								872	916	961
Cellphone Allowance								480	504	529
Housing Allowances										
Other benefits and allowances								538	565	593
Sub Total - Councillors		-	-	-	-	-	-	8 646	9 078	9 532
% increase	4	-	-	-	-	-	-	-	5.0%	5.0%
Senior Managers of the Municipality	2									
Basic Salaries and Wages								5 543	5 820	6 111
Pension and UIF Contributions								11	11	12
Medical Aid Contributions										
Overtime										
Performance Bonus										
Motor Vehicle Allowance	3							439	461	484
Cellphone Allowance	3							103	108	114
Housing Allowances	3									
Other benefits and allowances	3							1	1	1
Payments in lieu of leave										
Long service awards										
Post-retirement benefit obligations	6									
Sub Total - Senior Managers of Municipality		-	-	-	-	-	-	6 097	6 402	6 722
% increase	4	-	-	-	-	-	-	-	5.0%	5.0%
Other Municipal Staff										
Basic Salaries and Wages								34 163	35 871	37 665
Pension and UIF Contributions								4 125	4 331	4 547
Medical Aid Contributions								5 913	6 208	6 519
Overtime								6 173	6 481	6 805
Performance Bonus										
Motor Vehicle Allowance	3							2 235	2 347	2 464
Cellphone Allowance	3							329	346	363
Housing Allowances	3							625	657	690
Other benefits and allowances	3							20	21	22
Payments in lieu of leave								540	567	595
Long service awards										
Post-retirement benefit obligations	6									
Sub Total - Other Municipal Staff		-	-	-	-	-	-	54 123	56 829	59 670
% increase	4	-	-	-	-	-	-	-	5.0%	5.0%
Total Parent Municipality		-	-	-	-	-	-	68 865	72 309	75 924

14.Monthly targets for revenue, expenditure& cash flow

The following table is a breakdown of Monthly targets for revenue, expenditure, cash flow for the year 2017/2018.

MONTHLY CASH FLOWS	Budget Year 2017/18												Medium Term Revenue and Expenditure Framework		
	July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand															
Cash Receipts By Source															
Property rates	1 180	1 177	1 091	988	960	1 264	980	982	983	1 984	1 977	-	13 566	14 366	15 699
Service charges - electricity revenue	2 408	3 407	3 406	3 405	3 404	3 403	2 402	2 401	2 400	2 399	3 398	114	32 547	35 150	37 962
Service charges - water revenue												-			
Service charges - sanitation revenue												-			
Service charges - refuse revenue	257	256	255	254	153	152	151	150	149	148		107	2 030	2 150	2 274
Service charges - other												-			
Rental of facilities and equipment	12	13	16	13	16	12	16	16	20	11	11	9	164	172	180
Interest earned - external investments	1 315	995	1 296	597	1 075	298	299	300	170	26	27	996	7 395	10 500	15 000
Interest earned - outstanding debtors												-			
Dividends received												-			
Fines, penalties and forfeits	1	2	3	4	5	6						6	27	28	30
Licences and permits	64	35	36	37	38	69	50	71	72			3	478	502	527
Agency services	67	43	31	163	37	17	43	12	28	95	655	16	1 207	1 267	1 331
Transfer receipts - operational	25 361				19 000				35 000			6 633	85 994	89 527	94 720
Other revenue												2 476	2 476	2 622	2 977
Total Cash Receipts by Source	30 665	5 928	6 134	5 461	24 688	5 221	3 941	3 932	38 822	4 663	6 068	10 359	145 884	156 284	170 700
Other Cash Flows by Source															
Transfer receipts - capital			15 000				4 000					4 814	23 814	24 890	26 334
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions) & Transfers and subsidies - capital (in-kind - all)												-			
Proceeds on disposal of PPE												36 013	36 013	-	24 130
Short term loans												-			
Borrowing long term/refinancing												-			
Increase (decrease) in consumer deposits												10	10	10	11
Decrease (increase) in non-current debtors												-			
Decrease (increase) other non-current receivables												-			
Decrease (increase) in non-current investments												-			
Total Cash Receipts by Source	30 665	5 928	21 134	5 461	24 688	5 221	7 941	3 932	38 822	4 663	6 068	51 196	205 721	181 184	221 175
Cash Payments by Type															
Employee related costs	4 500	4 500	4 500	4 500	3 500	3 500	4 718	4 718	9 718	5 718	6 718	3 629	60 220	64 495	69 074
Remuneration of councillors	750	750	750	750	750	750	696	696	696	696	696	668	8 646	9 078	9 532
Finance charges	68	68	68	68	78	78	108	98	58	58	58	51	858	900	946
Bulk purchases - Electricity	2 500	2 900	2 800	3 000	2 900	2 800	3 000	2 900	2 800	2 100	2 500	2 466	32 666	35 280	38 102
Bulk purchases - Water & Sewer												-			
Other materials	115	116	127	128	129	140	171	172	183	154	168	216	1 817	1 908	2 004
Contracted services	281	281	281	281	281	281	281	281	281	281	281	281	3 369	3 567	3 774
Transfers and grants - other municipalities	221	197										1	419	444	469
Transfers and grants - other												-			
Other expenditure	4 245	4 245	4 245	4 245	4 245	4 245	4 245	4 245				3 343	37 299	36 689	27 791
Total Cash Payments by Type	12 679	13 056	12 770	12 971	11 882	11 793	13 218	13 109	13 735	9 006	10 420	10 654	145 294	152 361	151 692
Other Cash Flows/Payments by Type															
Capital assets		5 240	4 178	10 000		1 108	1 790	4 350	4 350	2 500		24 154	57 670	61 073	64 676
Repayment of borrowing												656	656	658	659
Other Cash Flows/Payments												-			
Total Cash Payments by Type	12 679	18 296	16 948	22 971	11 882	12 901	15 008	17 459	18 085	11 506	10 420	35 464	203 620	214 092	217 027
NET INCREASE/(DECREASE) IN CASH HELD	17 986	(12 368)	4 186	(17 510)	12 806	(7 680)	(7 067)	(13 527)	20 737	(6 844)	(4 352)	15 732	2 101	(32 908)	4 148
Cash/cash equivalents at the month/year begin:	107 432	125 418	113 050	117 236	99 727	112 533	104 853	97 786	84 260	104 997	98 153	93 801	107 432	109 533	76 625
Cash/cash equivalents at the month/year end:	125 418	113 050	117 236	99 727	112 533	104 853	97 786	84 260	104 997	98 153	93 801	109 533	109 533	76 625	80 773

Collection rates

Revenue collection rate applied is 90% for property rates and service charges etc and interest and grants rate applied is 100%

Operating and capital expenditure: The municipality has applied 100% excluding non cash items.

15. Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

a. In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has

progressively improved and includes monthly published financial performance on the website.

b. Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has employed interns undergoing training in various divisions of the Financial Services Department. Some of interns has been appointed permanently.

c. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

d. Audit Committee

An Audit Committee has been established and is fully functional.

e. Service Delivery and Implementation Plan

16. Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget

How are those funds used?

- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was available